

**REPORT OF THE AUDIT OF THE  
EDMONSON COUNTY  
CLERK**

**For The Year Ended  
December 31, 2003**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable N. E. Reed, Edmonson County Judge/Executive  
Honorable Larry Carroll, Edmonson County Clerk  
Members of the Edmonson County Fiscal Court

The enclosed report prepared by Berger & Company, CPA, PSC, Certified Public Accountants, presents the statement of revenues, expenditures, and excess fees of the County Clerk of Edmonson County, Kentucky, for the year ended December 31, 2003.

We engaged Berger & Company, CPA, PSC to perform the audit of this statement. We worked closely with the firm during our report review process; Berger & Company, CPA, PSC evaluated the Edmonson County Clerk's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen  
Auditor of Public Accounts

Enclosure





**REPORT OF THE AUDIT OF THE  
EDMONSON COUNTY  
CLERK**

**For The Year Ended  
December 31, 2003**





## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE EDMONSON COUNTY CLERK**

**For The Year Ended  
December 31, 2003**

Berger & Company, CPA, PSC has completed the Edmonson County Clerk's audit for the year ended December 31, 2003. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting described in Note 1.

#### Financial Condition:

Excess fees increased by \$189,046 from the prior year, resulting in excess fees of \$216,731 as of December 31, 2003. Revenues increased by \$71,926 from the prior year and expenditures decreased by \$117,120.

#### Report Comments:

- The County Clerk Should Keep Accurate Records To Account For Public Funds
- Lacks Adequate Segregation Of Duties

#### Deposits:

The Clerk's deposits were insured and collateralized by bank securities or bonds.





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The Honorable N. E. Reed, Edmonson County Judge/Executive  
The Honorable Larry Carroll, Edmonson County Clerk  
Members of the Edmonson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Edmonson County, Kentucky, for the year ended December 31, 2003. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2003, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated October 12, 2004, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Honorable N. E. Reed, Edmonson County Judge/Executive  
The Honorable Larry Carroll, Edmonson County Clerk  
Members of the Edmonson County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The County Clerk Should Keep Accurate Records To Account For Public Funds
- Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Edmonson County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Berger + Company CPA PSC". The signature is written in a cursive, flowing style.

Berger & Company, CPA, PSC

Audit fieldwork completed -  
October 12, 2004

EDMONSON COUNTY  
LARRY CARROLL, COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2003

Revenues

State Fees For Services \$ 5,896

Fiscal Court 70,389

Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers \$ 298,108

Usage Tax 466,143

Tangible Personal Property Tax 736,696

Licenses-

Fish and Game 6,577

Marriage 2,511

Deed Transfer Tax 19,748

Delinquent Tax 122,672 1,652,455

Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts \$ 11,552

Real Estate Mortgages 26,421

Chattel Mortgages and Financing Statements 37,335

Powers of Attorney 1,376

All Other Recordings 19,871

Charges for Other Services-

Candidate Filing Fees

Copywork 324

Miscellaneous 2,938 99,817

Total Revenues \$ 1,828,557

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 225,572

Usage Tax 453,475

Tangible Personal Property Tax 288,682

Fish and Game \$ 6,613

Delinquent Tax 17,078

Legal Process Tax 12,686 \$ 1,004,106

The accompanying notes are an integral part of this financial statement.

EDMONSON COUNTY  
 LARRY CARROLL, COUNTY CLERK  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2003  
 (Continued)

Expenditures (Continued)

Payments to Fiscal Court:

Tangible Personal Property Tax	\$	87,851	
Delinquent Tax		15,376	
Deed Transfer Tax		<u>18,761</u>	121,988

Payments to Other Districts:

Tangible Personal Property Tax	\$	330,325	
Delinquent Tax		<u>57,674</u>	387,999

Payments to Sheriff 1,158

Payments to County Attorney 21,343

Operating Expenditures and Capital Outlay:

Materials and Supplies-			
Office Supplies	\$	255	
Other Charges-			
Refunds		1,446	
Miscellaneous		130	
Postage		<u>3,012</u>	<u>4,843</u>

Total Expenditures \$ 1,541,437

Net Revenues \$ 287,120

Less: Statutory Maximum 63,753

Excess Fees \$ 223,367

Less: Expense Allowance	\$	3,600	
Training Incentive Benefit		<u>3,036</u>	<u>6,636</u>

Excess Fees Due County for 2003 \$ 216,731

Payments to Fiscal Court - Monthly 216,731

Balance Due Fiscal Court at Completion of Audit \$ 0

EDMONSON COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

Kentucky Revised Statute (KRS) 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31, that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2003 services
- Reimbursements for 2003 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2003

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

EDMONSON COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2003  
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent for the first six months and 7.34 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2003, the County Clerk's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the County Clerk's agent in the County Clerk's name.



## COMMENTS AND RECOMMENDATIONS



EDMONSON COUNTY  
LARRY CARROLL, COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2003

STATE LAWS AND REGULATIONS:

The County Clerk Should Keep Accurate Records To Account For Public Funds

During our testing, auditor noted that the County Clerk did not properly utilize the disbursements ledgers, which is required by the uniform system of accounts authorized by KRS 68.210. We noted that a formal disbursements ledger was not maintained as to date, check number, and payee. KRS 43.075 calls for the keeping of accurate records as described by KRS 68.210. We recommend the County Clerk record disbursements by date; check number, payee, amount and classification on the disbursement ledger in order to maintain accurate records as prescribed by KRS 43.075 and KRS 68.210.

*County Clerk's Response:*

*Already implemented change.*

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

Lacks Adequate Segregation Of Duties

The County Clerk's office has a lack of segregation of duties, which we consider to be both a reportable condition and a material weakness. The Clerk has statutory authority to assume the role as custodian of monetary assets, as well as recorder of transactions and preparer of financial statements. However, in being the sole individual responsible for all these duties, the Clerk is compromising the internal control structure of his office and increasing the risk that misstatements or errors may occur and not be detected in a timely manner. Due to the entity's diversity of official operations, small staff size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. We recommend the County Clerk implement some of the following compensating controls to offset the weaknesses in the internal control structure:

- The Clerk should require an employee to compare the daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the monthly receipts ledger. One way to document this control would be to have the employee initial the bank deposit, daily deposit and the receipts ledger.
- The Clerk should require an employee to compare the quarterly financial report to the receipts and disbursements ledgers for accuracy. Any differences should be reconciled.
- The Clerk should have an employee compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled.

*County Clerk's Response:*

*Will comply.*

EDMONSON COUNTY  
LARRY CARROLL, COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2003  
(Continued)

PRIOR YEAR:

The following comments are disclosed in the prior audit:

- The County Clerk Should Keep Accurate Records To Account For Public Funds
- Lacks Adequate Segregation Of Duties

There were still problems relating to reporting and segregation of duties, so similar comments have been issued.

The following comments are disclosed in the prior audit, but have been corrected:

- The County Clerk Should Present A Settlement To Fiscal Court
- The County Clerk Should Properly Publish His Audit
- The Fiscal Court Should Annually Set The Maximum Amount To Be Expended For Deputies' Salaries

REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





The Honorable N. E. Reed, Edmonson County Judge/Executive  
The Honorable Larry Carroll, Edmonson County Clerk  
Members of the Edmonson County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Edmonson County Clerk for the year ended December 31, 2003, and have issued our report thereon dated October 12, 2004. This was a special report on the County Clerk's financial statement prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Edmonson County Clerk's financial statement for the year ended December 31, 2003, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The County Clerk Should Keep Accurate Records To Account For Public Funds

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Edmonson County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition.

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Berger + Company CPA PSC". The signature is written in a cursive, flowing style.

Berger & Company, CPA, PSC

Audit fieldwork completed -  
October 12, 2004



